

Message Text

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ACTION EUR-12

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FM AMEMBASSY BERN

TO SECSTATE WASHDC PRIORITY 4098

USMISSION EC BRUSSELS PRIORITY

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

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EO 11652: NA

TAGS: CIEC

SUBJ: CIEC PREPARATION: SWISS THINKING ON CIEC PACKAGE

REF: BERN 1012 (NOTAL)

1. SUMMARY: THE SWISS CONTINUE TO SEARCH FOR ALTERNATIVES TO ODA OR FOR AN ODA FORMULA THAT WOULD PERMIT THEM TO APPROVE THE PACKAGE WITHOUT RESERVING ON ODA. THUS FAR THEY HAVE MADE LITTLE PROGRESS. THE ONLY PROPOSAL THEY MIGHT MAKE WHICH HAS REAL CONTENT, DEBT FORGIVENESS FOR SOME OF THE POOREST LDC'S, IS IN THE AREA OF DEBT RELIEF. WHETHER HIGHER LEVES OF THE SWISS GOVT WILL APPROVE IT IN PRINCIPLE FOR DISCUSSION WITH OTHER G-8 MEMBERS IS UNCERTAIN. THOSE WORKING ON THE PROBLEM AT LOWER LEVELS BELIEVE THAT IF IT IS PUT FORWARD THE SWISS WILL NOT PRESS IT IF THE OTHER G-8 MEMBERS OPPOSE IT. END SUMMARY.

2. AS STATED REFTEL, THE SWISS ARE TURNING AWAY FROM THE IDEA OF DEBT RELIEF AS A PART OF THE CIEC PACKAGE. THEY ARE, HOWEVER, UNABLE TO MAKE ANY COMMITMENTS ON INCREASES IN ODA AS AN ALTERNATIVE. THE OPPOSITION OF SWISS VOTERS TO INCREASES ON ODA REMAINS STRONG. THE SWISS ARE CONVINCED THAT ANY EFFORT ON THE PART OF THE FEDERAL COUNCIL TO PERSUADE VOTERS TO CHANGE THEIR VIEWS WOULD LEAD TO CERTAIN DEFEAT OF THE VALUE ADDED TAX IN THE JUN REFERENDUM. THE VAT IS THE CENTERPIECE OF THE GOVT'S ECONOMIC POLICY. MOST OBSERVERS GIVE IT A 50-50 CHANCE AT BEST. IF OPPONENTS WERE ABLE TO ARGUE THAT ANY OF THE PROCEEDS OF THE VAT WOULD GO FOR INCREASED ODA, PARTICULARLY NOW, WHEN THE COUNCIL HAS PROPOSED CUTS IN EVERY SWISS PROGRAM EXCEPT DEVELOPMENT AID AND DEFENSE, VAT'S CHANCES WOULD BE SLIM INDEED.

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3. THE SWISS HAD HOPED TO OVERCOME A PART OF THIS PROBLEM BY SEEKING DEMONSTRABLE RECIPROCITY IN THE CIEC, IN THE FIELDS OF ENERGY AND PROTECTION OF INVESTMENT. THEY ARE NOW PRETTY WELL CONVINCED THAT THIS WILL NOT BE POSSIBLE IN THE SHORT RUN ON ENERGY: GIVEN THE DEVELOPMENT OF US AND OTHER DC CONSUMPTION PATTERNS AND THE LIKELY EXTEND OF DC OFFERS TO THE LDC'S THERE IS INSUFFICIENT LEVERAGE. ON INVESTMENT, HOWEVER, THE SWISS ARE STILL LOOKING FOR INDUCEMENTS TO RECIPROCITY AS A PART OF A FINANCIAL PACKAGE ON PRIVATE CAPITAL FLOWS. ONE PRELIMINARY THOUGHT WAS TO SEEK WAYS IN WHICH ACCESS TO THE SWISS MARKET MIGHT BE IMPROVED. TWO MEASURES ARE BEING CONSIDERED. THE FIRST WOULD BE ELIMINATION OF THE DIFFERENTIAL IN THE STAMP TAX CHARGED ON LDC LOANS AS OPPOSED TO DOMESTIC ISSUES. HOWEVER, THIS HAS ALREADY RUN INTO OPPOSITION FROM DOMESTIC BORROWERS, AND MAY NOT BE APPROVED. THE SECOND WOULD BE TO PUT LDC LOANS ON THE SAME FOOTING AS THOSE OF THE WORLD BANK AND OTHER INTERNATIONAL INSTITUTIONS NOT SUBJECT TO THE CEILING ON FOREIGN

BORROWING ON THE SWISS MARKET.

4. NEITHER OF THESE MEASURES ARE LIKELY TO HAVE ANY EFFECT. SWISS LENDING INSTITUTIONS FOLLOW CONSERVATIVE POLICIES ON LOANS TO LDC'S, AND HAVE ON OCCASION BEEN CRITICAL OF WHAT THEY BELIEVE TO BE OVERLY LIBERAL POLICIES OF US BANKS, ESPECIALLY ON FINANCIAL CREDITS. EVEN IF IMPLEMENTED, THE CHANGES NOW UNDER CONSIDERATION HERE WOULD HAVE LITTLE OR NO EFFECT ON THE WILLINGNESS OF SWISS BANKS TO LEND MORE TO A LARGER NUMBER OF LDC'S. THEREFORE, WORKING LEVEL OFFICIALS IN THE SWISS GOVT ARE PREPARING FOR DISCUSSION OF A PROPOSAL THAT THE IMF ISSUE AN OPINION AS TO THE CREDIT WORTHINESS OF LDC BORROWERS WHICH MIGHT INDUCE SWISS BANKERS TO BE MORE LIBERAL. AS WITH THE OTHER PROPOSALS, THIS IS ALSO IN A VERY PRELIMINARY STAGE, AND THOSE WORKING ON IT ARE INCLINED TO BELIEVE IT IS A NON-STARTER. IT MAY BE, HOWEVER, THAT THE SWISS WILL WISH TO DISCUSS IT INFORMALLY WITH OTHER G-8 LIMITED OFFICIAL USE

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MEMBERS ON APR 6.

5. ALSO UNDER CONSIDERATION AT LOWER LEVELS IN THE SWISS GOVT IS A PROPOSAL TO FOREGIVE DEBTS OF THE PPOREST LDC'S. HOWEVER, ALTHOUGH THIS LEGALLY POSSIBLE, THE SWISS ARE FEARFUL OF VOTER REACTION. FURTHERMORE, THEY BELIEVE THE PRACTICAL EFFECT WOULD BE LIMITED BECAUSE THE LDC'S THEY HAVE IN MIND ARE, FOR THE MOST PART, NOT AMONG THOSE FACING THE MOST SERIOUS BALANCE OF PAYMENTS AND DEBT SERVICE PROBLEMS. THEY MAY PUT THE IDEA INFORMALLY TO THE G-8, BUT ARE UNLIKELY TO ADOPT IT IF THE G-8 IS OPPOSED.

6. THE SWISS ARE ALREADY GIVING VERY CAREFUL CONSIDERATION TO THE WORDING OF THEIR RESERVATION ON ANY COMMITMENT TO INCREASED ODA. THEY WILL CONTINUE TO SEARCH FOR AN ALTERNATIVE IN OTHER AREAS AND, AS AMB JOLLES PUT IT (REFTEL, FOR SOMETHING THAT IS NOT DEBT RELIEF BUT CAN BE PRESENTED TO THE SWISS PUBLIC AS SOMETHING OTHER THAN ODA. DAVIS

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